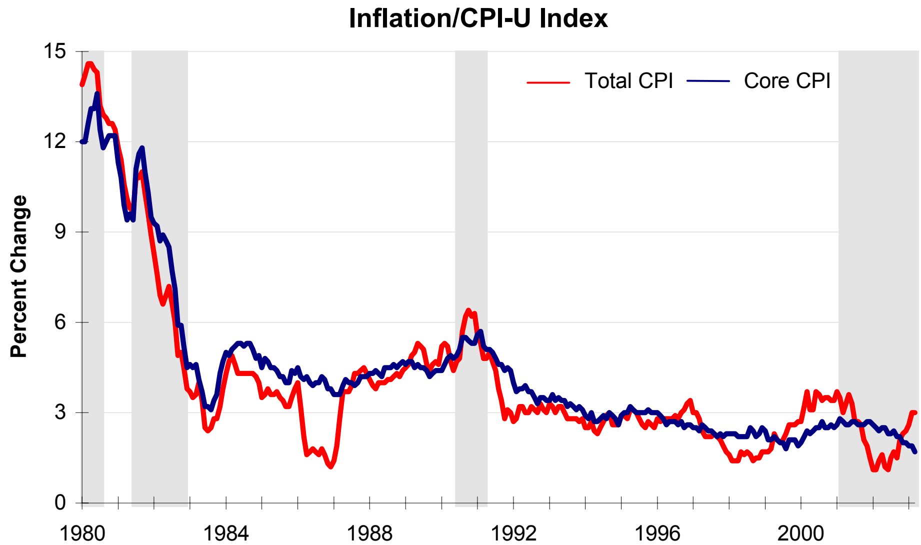
Economic Developments

A series of charts accompanied by brief commentary that review key economic indicators.

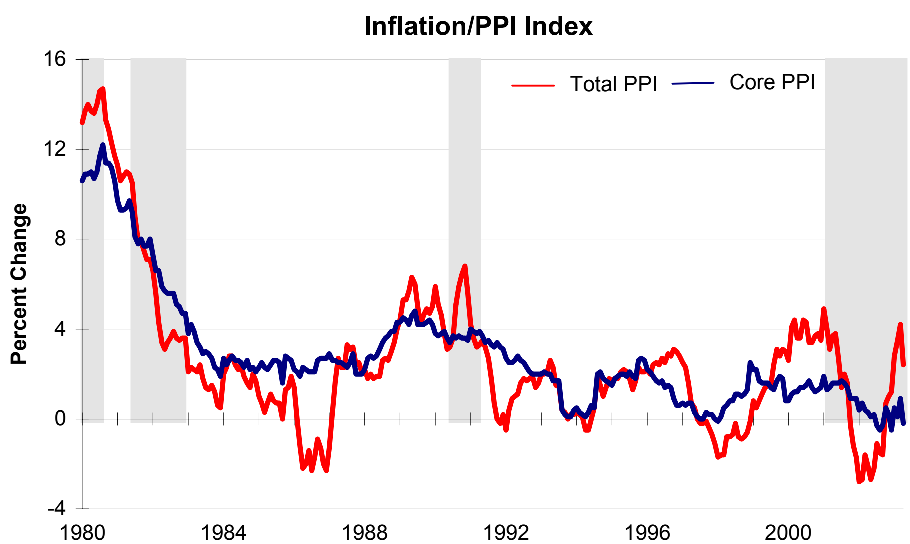
Note: the grey bars in the charts show periods of economic recession.

Prepared by the Joint Economic Committee, Chairman Robert F. Bennett



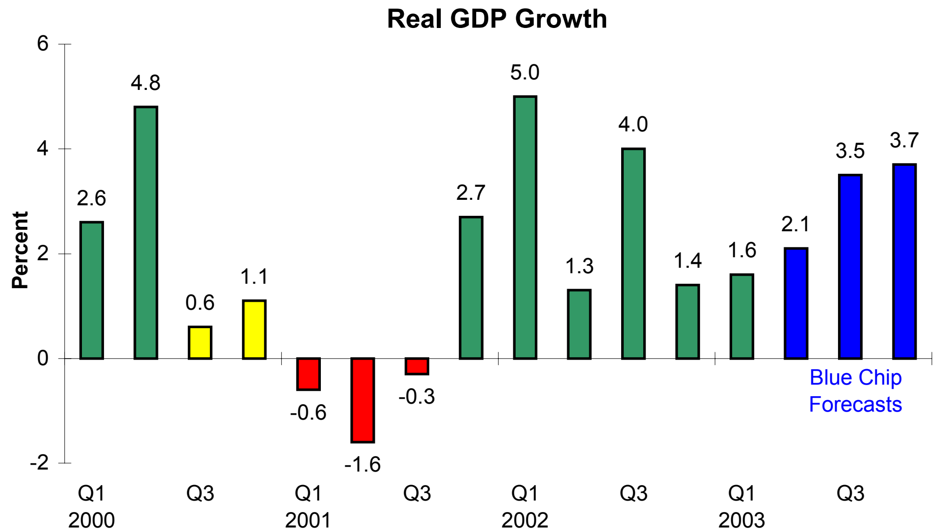
Source: Bureau of Labor Statistics , seasonally adjusted, year/year

Inflation remains very low by historical standards. Recent rises in overall consumer price growth reflects energy price run-ups. The so-called "core" consumer prices—excluding the often-volatile food and energy prices—have shown reduced growth, or disinflation. With very low inflation rates already, further disinflation would push the economy close to, or into, deflation.



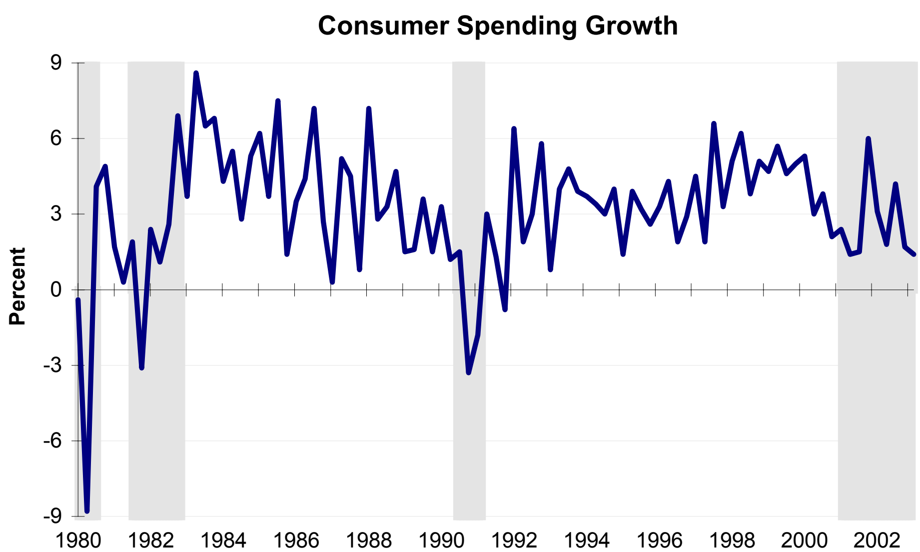
Source: Bureau of Labor Statistics, finished goods, seasonally adjusted, year/year

Overall producer prices for finished goods (essentially wholesale prices) have exhibited inflation, but excluding food and energy prices producer prices have fallen for six of the past ten months.



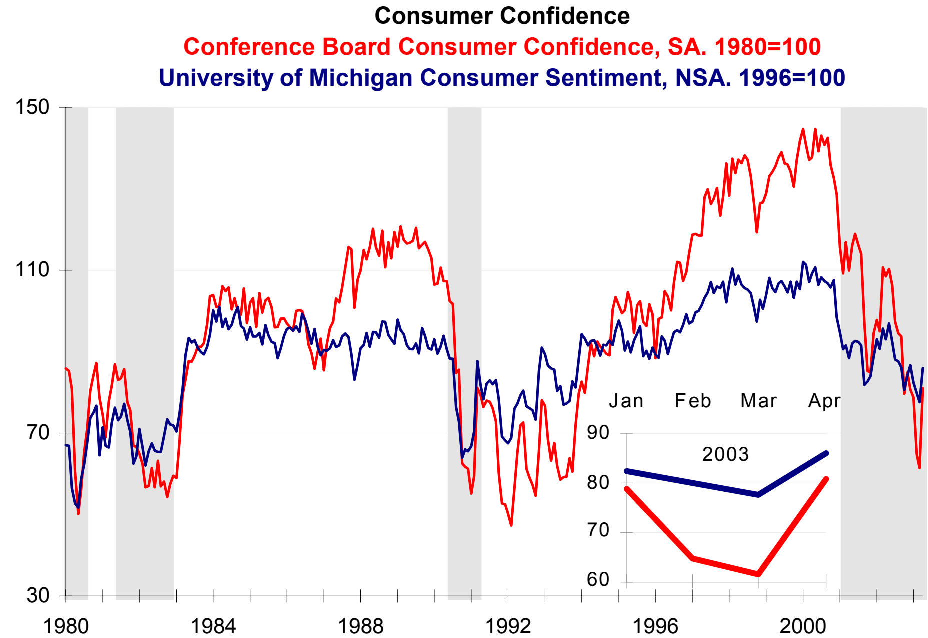
Sources: Bureau of Economic Analysis, Blue Chip Economic Indicators, annual rate, 1996 chain $

GDP growth in 2002 was moderate, though uneven. First quarter growth this year was also moderate. Moderation of consumption spending, slower inventory accumulation, sluggish business investment, and weak net exports have held growth down. However, forecasters continue to see steady improvement for the rest of the year.

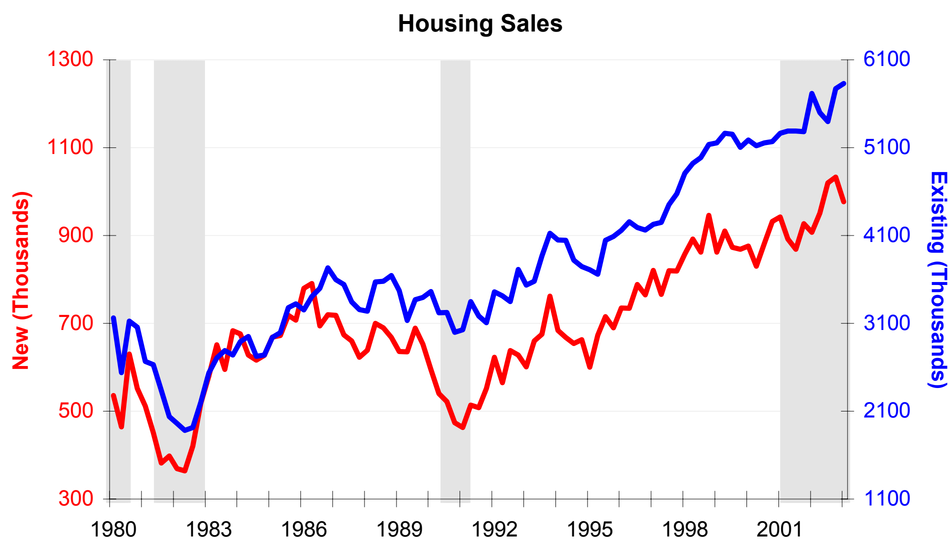


Source: Bureau of Economic Analysis, Personal Consumption Expenditure, annual rate ,1996 chain $

Consumer spending, fueled by reductions in taxes, increases in personal income, and rising home values, has supported the recovery, even as business hiring and investment have been stagnant. Growth in consumer spending has recently moderated.



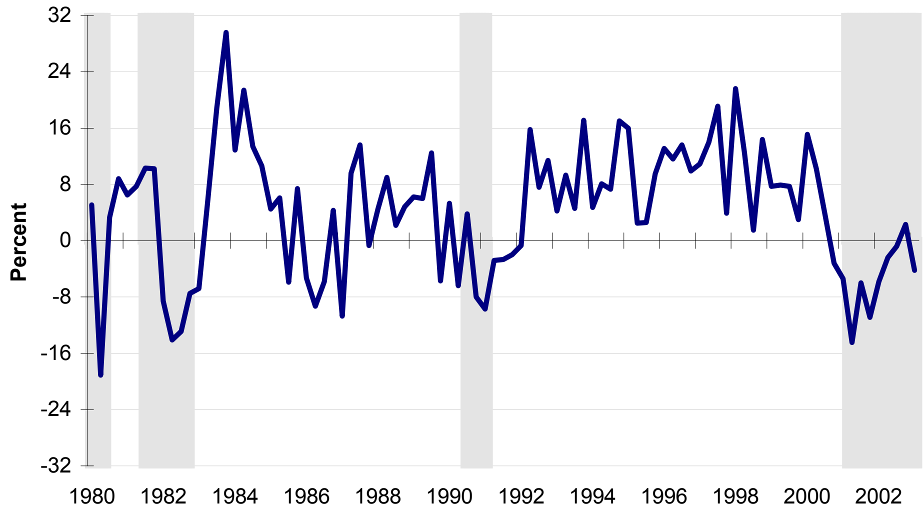
Consumer confidence is on the rise following downturns associate with a sluggish economy, weak job market, and geopolitical uncertainties.



Sources: Census Bureau, National Association of Realtors, seasonally adjusted, annual rate

Housing markets remain very strong, supported by low mortgage rates and household income growth. New and existing home sales have been remarkably strong and residential construction has shown impressive growth. Non-residential construction (factories, hotels, office buildings and other business structures) continues to struggle.

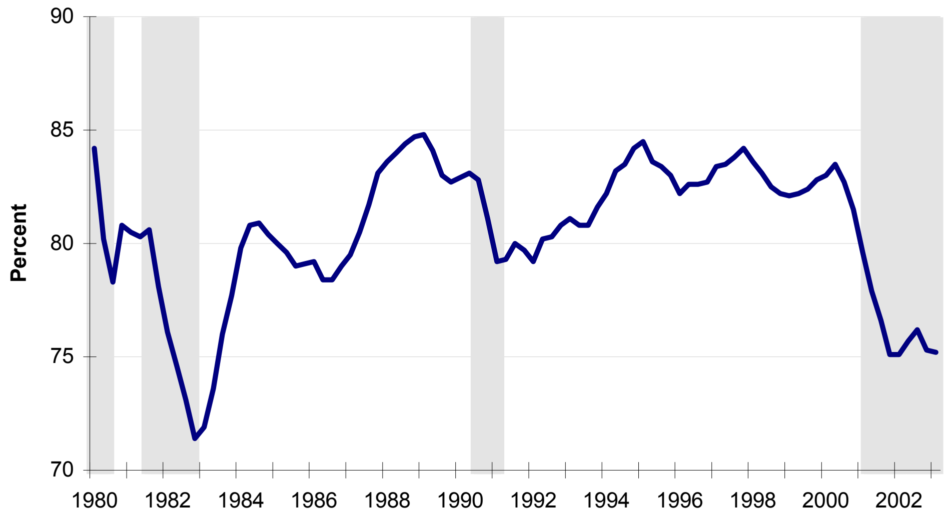
Business Investment Growth



Source: Bureau of Economic Analysis, Fixed Private Non-Residential, SAAR, 1996 chain $

Slowdowns in business investment were a large factor in the recent recession. Aside from a recent retreat, there has generally been upward movement in business investment.

Capacity Utilization

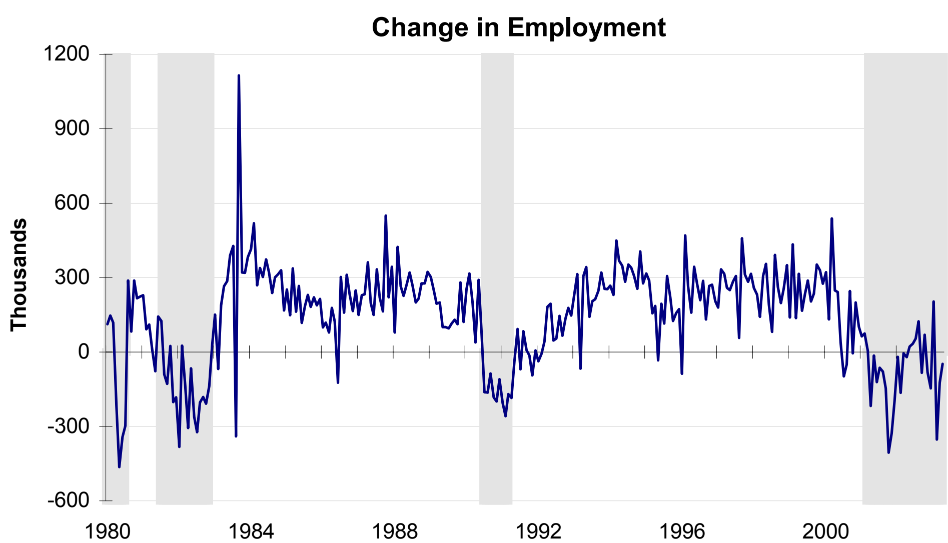


Source: Federal Reserve Board, seasonally adjusted

Capacity utilization in manufacturing remains very low by historical standards.

Source: Bureau of Labor Statistics, seasonally adjusted

The unemployment rate has been hovering around 5.8 to 6.0 percent for months (it edged up to 6.0 percent in April, from 5.8 percent). Recent unemployment rates have been around those seen in 1994, well into the previous economic expansion.

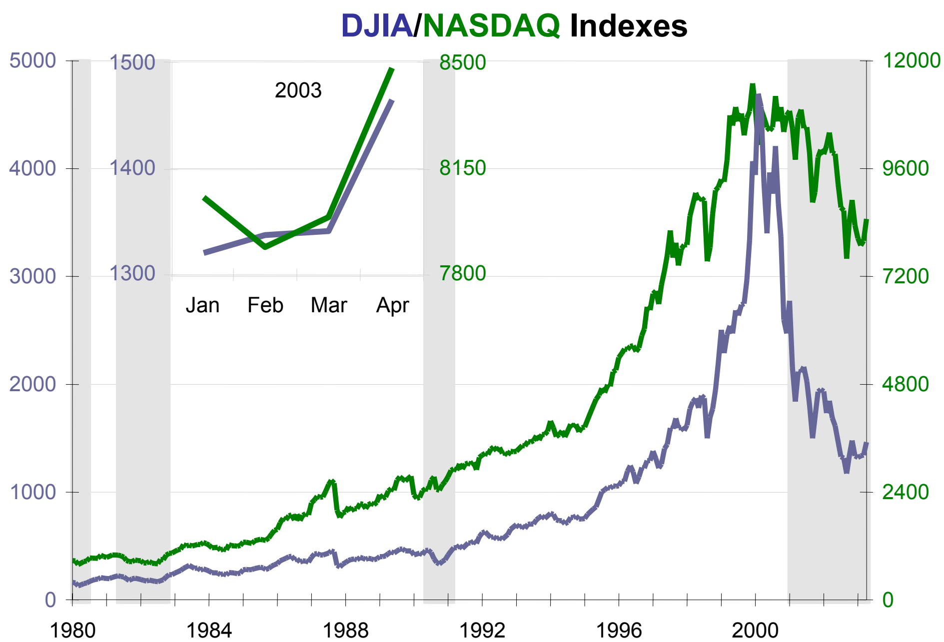


Source: Bureau of Labor Statistics, nonfarm payroll, seasonally adjusted

Labor markets have been disappointingly sluggish. Employment and business investment continue to indicate that businesses have been hesitant to expand in the midst of global uncertainties and a sequence of negative shocks.

Source: Bureau of Labor Statistics, year/year, seasonally adjusted

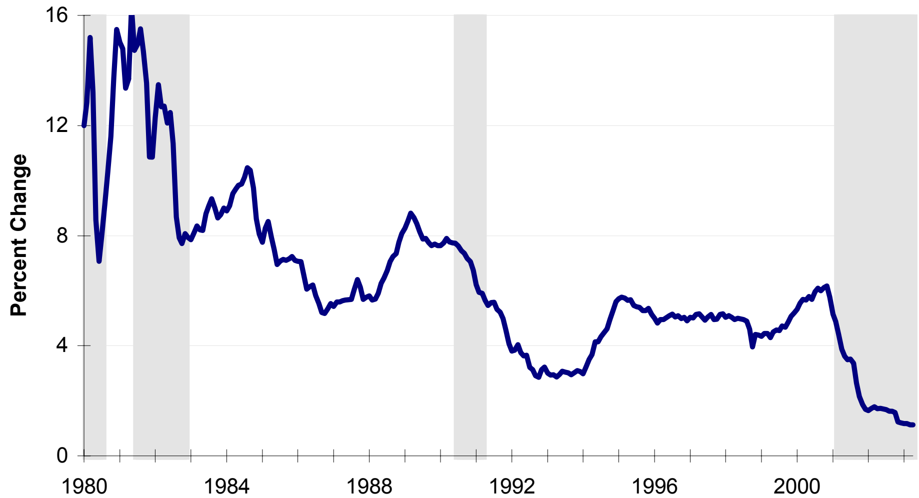
Productivity—output per hour—showed impressive growth in the first three quarters of 2002, but slowed more recently. Nonetheless, the productivity gain for 2002 as a whole was the strongest in over 50 years. Recent growth of productivity suggests a continuation of the impressive acceleration that began after 1995.



Sources: Dow Jones, Co. Nasdaq Stock Market, Inc., end of month

Stock markets have shown an impressive resurgence since some geopolitical uncertainties have been lifted. Recent gains follow declines associated with global tensions, economic weakness, heightened oil prices, and uncertainties about future demand.

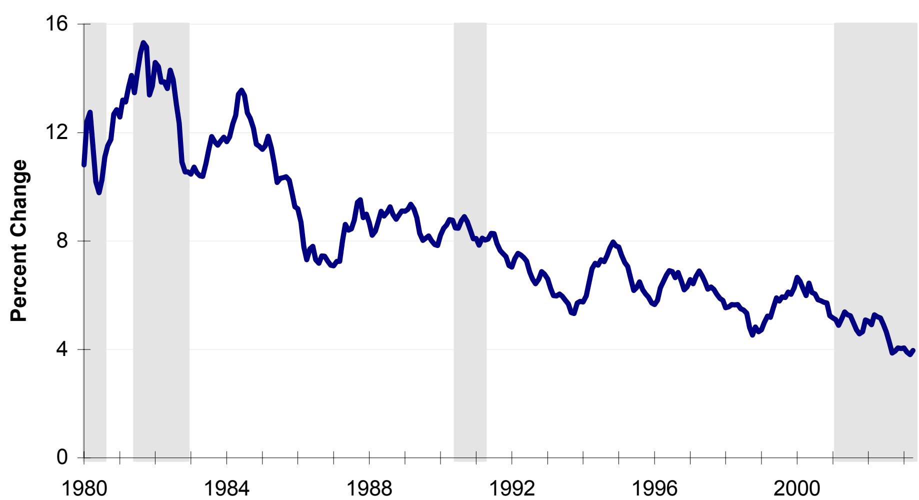
Three Month Treasury Bills



Source: Federal Reserve Board, secondary markets

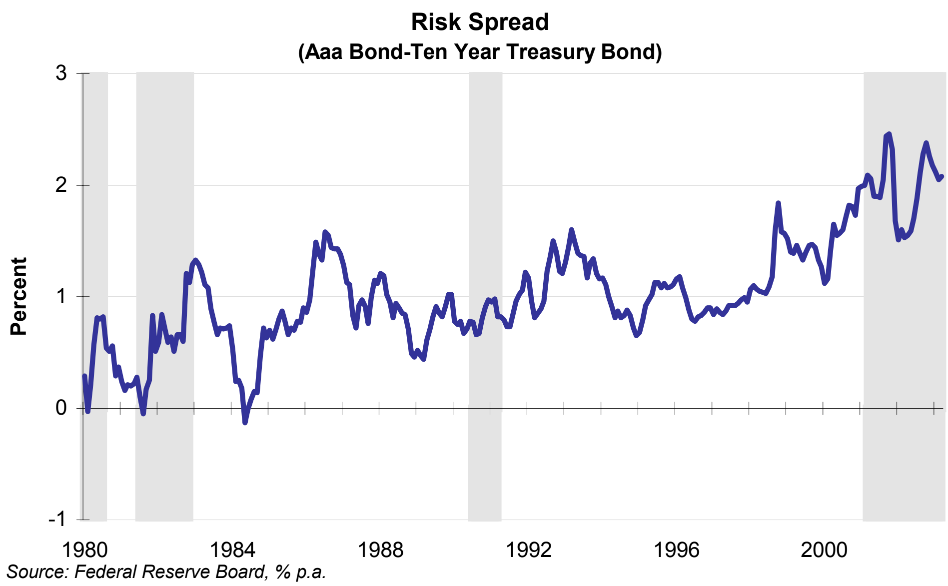
Short-term interest rates remain very low by historical standards. Low, near-zero, short-term rates lead many to be concerned about the future of monetary policy should sluggish economic growth continue or worsen. In the unlikely event that short-term rates would move to zero, as Japan has seen, the Fed could not lower those rates. However, the Fed still would have monetary tools available to use in influencing longer-term rates to help boost economic growth and thwart downward pressure on prices. And there are important structural differences between the Japanese and U.S. economies. Those differences, such as greater flexibility in U.S. financial markets, suggest that sustained deflation and zero interest rates are unlikely.

Ten Year Treasury Notes



Source: Federal Reserve Board

Long-term interest rates are also low. Yields on ten year treasury securities have recently fallen close to 3.5 percent. Thirty-year treasury yields and mortgage rates have fallen to the lowest in decades.



Interest rate "risk spreads"—differences between rates at which businesses borrower and the close to risk-free rate facing the federal government—have been falling. This indicates that credit conditions are easing. However, risk spreads remain elevated. The picture above is the difference between the interest rate on bonds issued by businesses with high creditworthiness (Aaa grade) and treasury bonds of like maturity.

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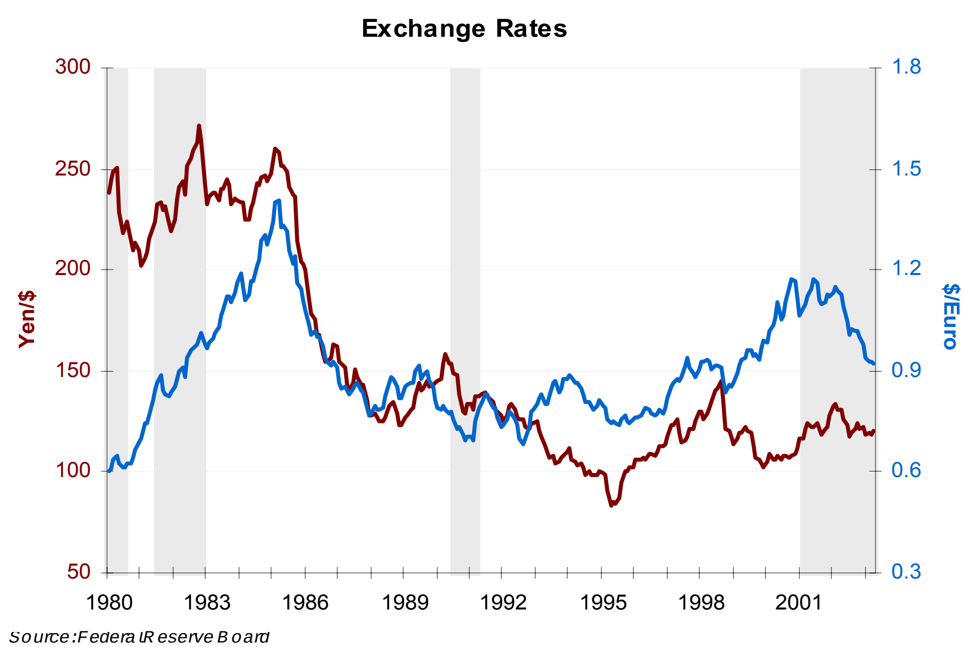
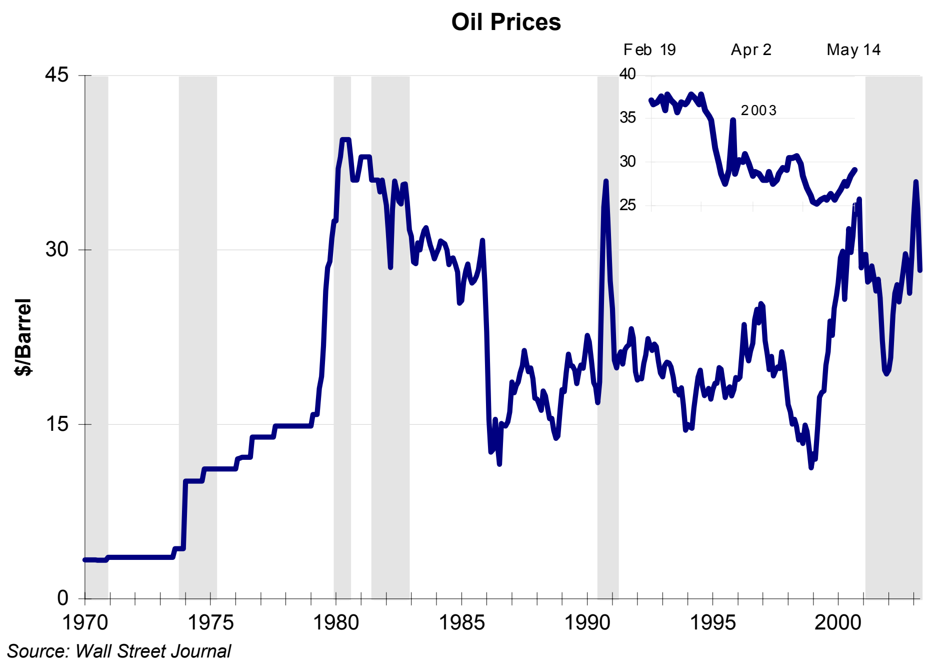
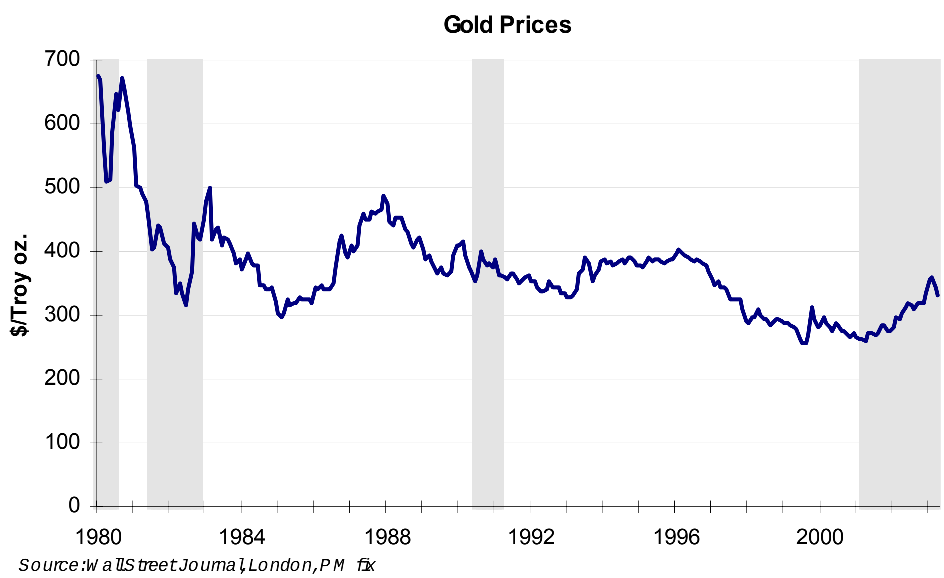


The dollar has been declining against currencies of major trading partners. This will probably weigh on the trade deficit in the short term, but will improve the deficit moving forward as quantities of imported goods grow less rapidly.



Oil prices have declined substantially over the past few months as tensions abroad have receded. The recent declines follow substantial increases associated with concerns about Iraq and Venezuela along with bouts of cold winter weather.



Following a period of increasing gold prices, gold has retreated recently.